

# **Department of Forestry and Fire Protection:**

**A Review of  
Allegations  
Concerning the  
State's Management  
of the Federal Excess  
Personal Property  
Program**

---

## ***Table of Contents***

---

***Summary***

***Introduction***

## ***Chapter 1***

---

The California  
Department of Forestry  
and Fire  
Protection Investigated  
Twenty-Eight Allegations  
of Misuse and Took a  
Variety of Actions

### ***Recommendation***

## ***Chapter 2***

---

The California  
Department of Forestry  
and Fire  
Protection Is Not  
Adequately Controlling  
Property Received From  
the Federal  
Excess Personal  
Property Program

### ***Recommendation*** ***s***

## ***Response to the Audit***

---

California Department of  
Forestry and  
Fire Protection

### ***Comments of the California State Auditor on the Response From the California Department of Forestry and Fire Protection***

# Summary

**For 25 of 28**  
~~In all allegations, the CDF~~  
~~took defendable~~  
~~action, had policies~~  
~~we identified several not~~  
~~We reviewed the CDF's~~  
~~investigation of the~~  
~~system and took no action.~~  
~~misuse of Federal~~  
~~Excess Personal~~  
~~Property (FEPP) allegations,~~  
~~four the CDF determined~~  
~~its employees did not~~  
~~comply with~~  
~~regulations, but~~  
~~concluded no further~~  
~~action was warranted~~  
~~because the State~~  
~~benefited.~~

## Results in Brief

The Aviation Management Unit of the California Department of Forestry and Fire Protection (CDF) operates and maintains a fleet of aircraft used in providing fire protection for approximately 36 million acres of publicly and privately owned wildlands. To meet some of its equipment needs, the CDF borrows federal excess personal property (FEPP) from the federal government through the U.S. Forest Service. The CDF began borrowing FEPP, primarily unneeded military equipment, in the mid-seventies as a way to obtain its own fleet of aircraft and spare parts at no cost. The CDF agrees to use the property primarily for fire protection and to secure and return the property when it is no longer needed.

In November 1992, numerous allegations were made dating back to 1982. The allegations involved a variety of issues, including potential theft and misuse of FEPP aircraft and aircraft parts. The State Resources Agency and the CDF investigated the allegations, and the CDF summarized the findings in a report issued in February 1994.

We reviewed the CDF investigation of 28 allegations. The CDF determined that no action was called for in 5 of the allegations because 4 of the alleged events did not violate any law or regulation and the fifth event happened so long ago that verifiable information was not available. For 20 allegations, the CDF did the following:

- For eight allegations, it took defendable disciplinary or corrective action;
- For eight other allegations, no additional action was necessary because the evidence did not substantiate the allegation; and
- For four allegations, no action was necessary because the evidence did not indicate a violation of any law or regulation.

However, for three allegations, the CDF determined that its employees did not comply with state or federal regulations but concluded no further action was warranted because the activities benefited the State. Regardless, the CDF is not relieved of following federal or state requirements even though the State may benefit.

Additionally, we reviewed the CDF's internal controls over the acquisition, disposal, loan, security, and physical inventory count of FEPP to evaluate if these controls adequately protect FEPP. We found the following problems in the CDF's internal controls:

- The CDF is not counting and reconciling its FEPP inventory;
- The CDF does not accurately record FEPP in its inventory records;
- The CDF does not appropriately tag FEPP property as required; and
- The CDF is not adequately safeguarding FEPP.

Failure to follow the federal regulations for property management of FEPP related to these conditions may result in the suspension of the state FEPP program. Without the program, the CDF would have to purchase aircraft and related parts and equipment at a significant increase in cost to meet its needs in providing fire protection services. Also, FEPP items lost, stolen, or misplaced may go undetected.

## ***Recommendations***

---

The CDF needs to exercise more oversight in administering the FEPP program by complying with state and federal regulations. Additionally, it should follow the federal requirement to perform a physical inventory of accountable FEPP, and it should reconcile its records with the U.S. Forest Service records at least once every two years. Finally, the CDF should maintain accurate equipment records and appropriately tag and safeguard FEPP.

### ***Agency Comments***

---

The CDF generally concurs with the findings and recommendations in the report. The CDF believes the report substantially confirms the results of the prior investigations of the allegations and is hopeful that our findings will assist in bringing closure to these issues. Further, the CDF states that in some areas it has improved its control over state and federal property and in other areas is taking steps to improve its control.

Blank page inserted for reproduction purposes only.

---

# **Introduction**

---

## ***Background***

---

**T**he California Department of Forestry and Fire Protection (CDF) provides fire protection for approximately 36 million acres of publicly and privately owned wildlands. The CDF also contracts with six counties (Los Angeles, Ventura, Santa Barbara, Kern, Marin, and Orange) to provide fire protection on state land within the counties' boundaries.

Organizationally, the CDF operates 22 ranger units divided into two state regions, each unit using a variety of equipment in carrying out the CDF's mission. In addition, the CDF operates and maintains a fleet of aircraft in its Fire Protection Division's Aviation Management Unit. To meet some of its equipment needs, the CDF borrows federal excess personal property (FEPP) from the federal government.

The FEPP program was established as an assistance program in conjunction with the U.S. Forest Service's Cooperative Fire Protection programs with the states. The CDF can borrow and use FEPP in the prevention and control of wildfires on nonfederal rural lands and in rural communities. The CDF agrees to use the loaned property primarily for fire protection and to secure and return the property when it is no longer needed. Much of the FEPP comes from the military services, and the property ranges from relatively small items, such as radios, to aircraft. Since the federal government, through the U.S. Forest Service, retains title to the loaned FEPP, the acquisition, use, and disposal of FEPP is governed by federal regulations.

The CDF began obtaining FEPP in the mid-seventies as a way to obtain its own fleet of aircraft and spare parts at no cost. Before that time, the Aviation Management Unit relied on contracts with several private vendors and aircraft operators. Today, the CDF operates the largest state fleet of FEPP aircraft in the nation. The aircraft currently on loan under the FEPP program have an original acquisition value of \$46.3 million. The estimated value

of aircraft parts, tools, and equipment obtained through FEPP is \$28.4 million.

### ***Problems Developed in Administering the FEPP Program***

---

Several problems developed related to the improper use of FEPP. A 1989 audit of the U.S. Forest Service by the U.S. Department of Agriculture, Office of Inspector General, found that many of the FEPP items the CDF acquired were not effectively used, adequately protected, or promptly reported for disposal when no longer needed. Additionally, in November 1992, 17 allegations surfaced concerning the CDF's Aviation Management Unit. These allegations involved potential theft, misuse of FEPP aircraft and aircraft parts, and the investigation of the crash of a CDF aircraft. To address these concerns, the secretary of the State Resources Agency retained an independent investigator to review the 17 allegations and report the findings and conclusions. The investigator identified 11 additional issues.

In February 1993, the law enforcement section of the CDF Fire Prevention Program reviewed the various findings and conclusions of the Resources Agency and completed its own report. This report found the majority of the 28 allegations to be "not sustained." However, it determined that certain of these issues required further clarification, and the law enforcement section conducted additional inquiries.

The California State Department of Justice reviewed the Resources Agency and the CDF investigative reports and supporting documents. In June 1993, the Department of Justice concluded that, based on the information gathered by the Resources Agency and the CDF, it did not appear that criminal or conflict-of-interest violations were committed. The CDF summarized the findings of the Department of Justice, the Resources Agency, and the CDF law enforcement section in a final report issued February 16, 1994.

### **Scope and Methodology**

---

The purpose of this audit was to determine whether the various investigations of the CDF Aviation Management Unit thoroughly examined all of the allegations and whether the conclusions and recommendations were adequately supported with documentary evidence. Additionally, the purpose was to determine what

actions the CDF took as a result of the investigations and reports. The audit also evaluated whether the CDF followed all laws, rules, and regulations in notifying state and federal authorities of its investigation and the results. Finally, we were requested to investigate the facts surrounding the ownership of an S-2 airtanker.

In conducting this audit, we reviewed the reports of the investigations and the supporting documents. We also reviewed the CDF's policy and procedure manuals and interviewed CDF staff. Additionally, we reviewed the laws, rules, and regulations relevant to FEPP, and we reviewed reporting requirements where there were illegal acts and irregularities. We developed and verified information to evaluate whether the Aviation Management Unit had sufficient controls over FEPP aircraft and aircraft parts. However, we did not review controls over FEPP office equipment. Specifically, we reviewed acquisitions, disposals, loans, security, and physical inventory counts. We reviewed internal controls over these areas and took samples to verify that recorded property existed, that acquisitions and disposals were properly authorized and recorded, that loans of FEPP were made in accordance with federal regulations, and that property was reasonably safeguarded from loss. We also reviewed records to determine if the CDF periodically performed physical inventories as required by the federal regulations.

Blank page inserted for reproduction purposes only.

---

# Chapter 1

---

## ***The California Department of Forestry and Fire Protection Investigated Twenty-Eight Allegations of Misuse and Took a Variety of Actions***

### ***Chapter Summary***

---

The California Department of Forestry and Fire Protection (CDF) investigated 28 allegations involving a variety of issues, including potential theft and misuse of federal excess personal property (FEPP) aircraft and aircraft parts. The CDF determined that no action was called for in five of the allegations because four of the alleged events did not violate any law or regulation and the fifth event happened so long ago that verifiable information was not available. For the other 23 allegations, the CDF took a variety of actions. Specifically, the CDF took defendable disciplinary or corrective action for eight allegations. Additional action was not necessary for eight allegations because the evidence did not substantiate the allegations, and for four other allegations because the evidence did not indicate a violation of any law or regulation. For the three remaining allegations, the CDF determined that its employees did not comply with state or federal regulations, but it concluded that no further action was warranted because the activities benefited the State. However, we believe the CDF is not relieved of following federal or state requirements even though the State may benefit.

---

### ***Allegations for Which the CDF Took Defendable Disciplinary or Corrective Action***

---

For seven of the eight allegations, the CDF has reasonably resolved the issues raised.

We found that for eight allegations, the CDF took defendable action. Four cases involved an employee who misused state or federal property. In three of the four cases, the employee was disciplined according to state administrative regulations, and in the other case, the department denied the employee authorization to review FEPP for acquisition. A fifth case involved the theft of FEPP, and the CDF properly reported the theft to the police and the federal government. For a sixth case, involving the

violation of federal or state regulations, the CDF determined no adverse personnel action could be taken because of a three-year statute of limitations. The remaining two cases involved contracts in which the CDF subsequently improved controls over the purchase and use of aircraft parts by private contractors. However, one of these two contracts resulted in the joint custody of an S-2 airtanker between CDF and the private contractor. This joint custody has caused some confusion.

---

*For the remaining allegation, the CDF plans to regain custody of an aircraft currently stored in Arizona.*

---

The allegation involving the S-2 airtanker alleges that CDF's 1985 and 1987 agreements with the company, Marsh Aviation, in Mesa, Arizona, allowed for the contractor's unlimited use of state and federal aircraft parts. CDF investigators concluded, after reviewing the agreements and conducting interviews, that the use of the parts was within appropriate business practices. We also reviewed the two agreements, which were to develop, install, and test turbo-prop engines on the airtanker, which was acquired through the FEPP program. The initial agreements between the CDF and Marsh Aviation stated that the CDF would assist Marsh Aviation in accomplishing the project by providing spare parts for the aircraft to the extent such parts were available or were not required to maintain other aircraft belonging to the State. However, we found the agreements did not specify the tracking and return of these parts to the CDF. Nevertheless, in 1990, the CDF satisfactorily improved control over the spare parts when it renewed the agreement and required the tracking and return of parts used by the contractor.

Although the 1990 agreement improved control over the contractor's use of CDF aircraft parts, it did not include a provision that ensured the CDF full control over the aircraft. The earlier agreement gave the State the option to lease or purchase the engines if both sides could agree on the price or to have the contractor remove the engines and associated hardware and return the airframe to the CDF. The CDF stated it was not in a position to purchase the engines at that time, but, being interested in having the services of the airtanker, developed an agreement for the contractor to provide the engines and operate the airtanker during future fire seasons. As a result, according to the CDF Contracts Office, when the agreement to provide the engines and operate the airtanker ended in 1993, there was no single ownership of the airtanker; Marsh Aviation owned the engines while the airframe was under CDF control. The CDF then attempted to enter into a contract without competitive bids with Marsh Aviation to operate and maintain the aircraft, but the Department of General Services (DGS) denied approval because

the DGS felt it was unclear what services Marsh would provide and who owned the aircraft.

Furthermore, the U.S. Forest Service found that leaving the aircraft at Marsh Aviation with no formal agreement could lead to potential misuse and that, to comply with federal regulations, the CDF needed to either dispose of or regain custody of the aircraft. The U.S. Forest Service recommended that the CDF determine a course of action and include this plan in its annual program action plan. Further, it required that the CDF ground the aircraft and place it in storage with no further use other than allowing Marsh Aviation to show the aircraft to potential buyers.

In response, the CDF stated in its program action plan that it would ground the aircraft at Marsh Aviation until control over the aircraft was obtained. Furthermore, according to the acting chief of the Aviation Management Unit, the CDF is currently developing a plan to resolve the joint custody issue.

In one of the cases involving the misuse of state property, the allegation involved the personal use of state telephones by an employee. The CDF investigator reviewed the telephone records of a CDF employee during a seven-month period and found that 132 long-distance personal calls were made to his residence and other non-state locations. State policy does not allow personal calls to be charged to the State. A CDF disciplinary action against the employee included this issue related to making personal long-distance calls at the State's expense for a total of \$38. The State Personnel Board subsequently withdrew this issue from disciplinary action. We reviewed the records, spoke with the employee, and conclude that the CDF took defendable disciplinary action.

### ***Allegations That Were Not Substantiated by the Evidence***

We found that the evidence does not substantiate the event in eight of the allegations. In some cases, the allegation was unfounded because the CDF appropriately followed federal or state policy; in other cases, the investigators obtained evidence that disputed the allegation, and in other instances, there was no evidence to substantiate the allegation.

An example of an allegation not substantiated by the evidence was that emergency purchase authority for eight engines the CDF uses in some of its firefighting aircraft was requested and approved under false pretenses. To meet time constraints, the CDF submitted justification for an emergency purchase, obtained the required approval by the DGS, and made the purchase.

---

*For example, contrary to the allegation, the CDF appropriately used its emergency purchase authority to buy aircraft engines.*

---

The State Resources Agency investigator interviewed CDF personnel and pertinent government officials and reviewed documents. Additionally, he reported that he consulted with an outside aircraft engine mechanic who stated the engines were “top of the line and worth in excess of the purchase price,” and also with an expert in the state procurement process who stated that emergency procurement procedures were followed when there was no justification to do so. The CDF investigation disputed the Resources Agency report, stating there was no merit to this allegation as emergency purchases can be used for justifiable purposes that are urgent in nature. The CDF added that this was a one-time limited opportunity to purchase these engines and well within the best interest of the State and the Aviation Management Unit’s mission.

The Resources Agency investigator determined that a third party had contacted the CDF concerning the engines, which the Canadian government was selling. This third party bid on the engines and had first access to them within a certain time. The CDF concluded that the State of California did not know about the pending sale by the Canadian government and, therefore, could not have participated in the bid process.

We reviewed the purchase documents, the information the investigators gathered, and spoke with the DGS. According to the DGS purchasing manager, the documents indicate an urgency to make a purchase without competitive bidding and thereby qualified as an “emergency” per the State Administrative Manual. Having obtained the necessary DGS approval, and being consistent with the DGS’s interpretation of the Public Contract Code, we conclude the CDF appropriately followed state policy.

In another case, a CDF employee allegedly authorized a private vendor to remove high value FEPP parts from Boeing 707 aircraft at Davis Monthan Air Force Base in Arizona, and to place the removed parts into the CDF’s storage facility in Arizona. The allegation stated that the parts were never used and that their status was unknown.

***In another case, aircraft parts alleged to be missing were adequately acquired and disposed of.***

To determine if the CDF had followed federal guidelines concerning the care of FEPP, the Resources Agency investigator interviewed the owner of the storage facility in Arizona, reviewed records, and recommended a comprehensive audit of all parts the CDF obtained through the FEPP program since 1985. The CDF interviewed department personnel, reviewed records, and determined that the parts in question were recorded in the CDF's records. Also, the CDF concluded that the U.S. Forest Service and other federal agencies had performed complete audits concerning all parts received through the FEPP.

We conducted interviews and reviewed the CDF's records and reports. We determined that the U.S. Forest Service and the U.S. Department of Agriculture, Office of Inspector General, reviewed use and disposal of FEPP but did not conduct complete physical counts of the CDF's FEPP. However, we found adequate documentation substantiating the acquisition of the aircraft parts in 1986 and their proper disposal in 1994. Additionally, we selected a sample of 40 of the approximately 260 Boeing 707 parts from the acquisition list. We traced the 40 items to the disposal list, demonstrating that the CDF included the items in the equipment records. Although we did not determine if the parts were used, we did verify that proper justification for acquiring the parts was included on the original acquisition form.

#### ***Allegations for Which the Evidence Did Not Indicate a Violation of Any Law or Regulation***

We found the evidence did not indicate a violation of any law or regulation for four allegations. For example, one allegation alleged that a CDF employee purchased an automobile from a business owner who contracts with the State for aircraft services. Under certain circumstances, this could lead to a conflict of interest. For example, a conflict of interest would exist if the business owner offered the automobile to the CDF employee at a lower price than he would have to the public and the CDF employee was in a position to favor the business owner in contract bidding with the CDF. The Resources Agency investigator obtained copies of purchase and registration documents for the automobile, and the CDF investigators determined the purchase was for a used automobile at fair market value. We reviewed the documents and found no violation of law or regulation.

Another case involved a CDF employee who acquired land in the late 1980's with six other parties. Between 1985 and 1992, three parties were contractors with the CDF. It was alleged that a conflict of interest may have existed between the CDF employee and these parties. The CDF employee disclosed the joint land ownership on his 1986-87 Statement of Economic Interest, and, in response, the CDF immediately notified the employee of the Government Code, Section 87450. This section prohibits state officials from actively participating in government decisions directly relating to any contract where the state official has engaged in any business transactions with the contractor within 12 months before the official action. The CDF also counseled the employee to sever the investment relationship with parties who would constitute a conflict of interest. Eventually, a CDF disciplinary action against the employee included an issue related to taking six years to divide ownership of the property, during which time the situation resulted in his inability to perform all of the duties his position required.

---

*In a case alleging a conflict of interest, the Attorney General found that no conflict existed.*

---

The Resources Agency investigator acquired photographs, reviewed documents, obtained county land documents, and conducted interviews. He concluded the situation should be reviewed with legal counsel to determine if a conflict of interest existed and, if so, then an audit of the contracts between the State and these parties should be conducted to reveal any improper activities. The CDF investigator and the CDF legal counsel reviewed documents, the job duties and responsibilities assigned to the employee, and contracts entered into between the CDF Aviation Management Unit and various contractors. The investigator and counsel concluded a violation of the Government Code could not be substantiated. The California Department of Justice, Office of the Attorney General, also concluded it did not appear any criminal or conflict-of-interest violations occurred. We reviewed the information the investigators gathered. In addition, we reviewed the CDF employee's Statements of Economic Interest written since the investigation and reviewed land title documents verifying changes in the joint land ownership.

We found that, although the CDF took disciplinary action against the employee, joint ownership in this property still exists with at least two parties who own or control businesses in the aircraft field and who last conducted business with the CDF in 1992. We reviewed contracts of the CDF's Aviation Management Unit, specifically those contracts in which the CDF employee was involved, and determined that the Aviation Management Unit is

not currently contracting with these two parties. Further, we discuss the CDF's monitoring of Statements of Economic Interests for potential conflict of interest in Chapter 2.

***Allegations for Which the CDF Determined Its Employees Did Not Comply With State or Federal Regulations and Concluded No Further Action Was Warranted Because the Activities Benefited the State***

---

—————♦————  
*The CDF exchanged materials without following federal disposal procedures, reasoning the exchange benefited the State.*  
—————♦————

For three allegations, the CDF determined that its employees did not comply with state or federal regulations, but concluded no further action was warranted because the activities benefited the State. For example, the federal Property Acquisition Assistance Handbook prohibits the exchange or disposal of federal aircraft or aircraft components without approval from the Personal Property Division of the U.S. General Services Administration. The Resources Agency investigator found that in 1984 the CDF exchanged a federal helicopter tailboom for a tailboom from a private party. The CDF investigators reviewed documents and reasoned that the transaction resulted in an exchange of materials to the benefit of the State. Also, according to the CDF chief legal counsel, the statute of limitations precluded disciplinary action. The Government Code, Section 19635, states that disciplinary action may be taken up to three years from the time the cause for discipline took place. We reviewed the documents and concluded that the CDF did not follow federal disposal procedures. The CDF is not relieved of following federal approval requirements even though the State benefits.

Another allegation involves foreign travel by a state employee. The State Administrative Manual requires that trips involving unusual circumstances, such as travel to foreign countries, must receive individual approval by the governor. A CDF employee flew to Canada, at a private vendor's expense, to inspect engines the CDF eventually purchased. The travel documents were for an out-of-state trip to Maine to inspect the engines. The CDF did not receive the governor's required approval for out-of-country travel. The CDF report stated that the private vendor, not knowing the State's regulations, mistakenly made transportation arrangements directly to Canada rather than to Maine.

The Resources Agency investigator conducted interviews, reviewed documents, and identified the facts related to the trip to Canada. The CDF justified the breach of compliance with state

approval policies for out-of-country travel, stating that existing out-of-country approval procedures would have administratively precluded meeting the time constraints of accepting the purchase opportunity. Also, the CDF said that the risk of the Aviation Management Unit staff resulted in a significant financial benefit to the State because the engines it purchased from the trip were worth more than the purchase price. Moreover, the CDF determined disciplinary action was not warranted because the trip was valid, was not done for individual gain of the parties involved, and had there been adequate time, would have been approved given the circumstances. We reviewed the information the investigators gathered and state travel policy and determined the CDF did not follow this policy.

---

*Rather than follow state policy, the CDF took a credit from a vendor for disposing of replaced equipment.*

---

A third example involves the violation of the State's policy for property disposal. Before state property can be disposed of, the State Administrative Manual requires approval from Property Reutilization, DGS. The CDF arranged for state-owned radios removed from aircraft to be disposed of through a private vendor rather than disposing of them through the DGS. The radios were removed and replaced with new upgraded radio units. The vendor gave the CDF a credit of \$35,295 for the radios. The credit was to be applied to future CDF goods or services provided by the vendor.

The Resources Agency investigator conducted an interview and recommended that an audit of the transactions between the CDF and the vendor be conducted to determine the propriety of the radio exchange and the final disposition of the radios. He indicated the transactions appeared to be outside of approved state disposal guidelines. The CDF investigators recommended this type of transaction be evaluated to determine if the practice can be done appropriately under state procurement and disposal practices. However, an internal memorandum at the time of the event stated that by the time the radios could be sold through the DGS, their value would most likely be at scrap level, and that the State's General Fund, not Aviation Management, would get credit for their value. We reviewed the information the investigators gathered, reviewed state disposal policy, and verified that the credit of \$35,295 was applied to subsequent charges. However, we concluded that

the CDF did not comply with state disposal policy and also, as discussed in Chapter 2, determined that it did not follow up the recommendation to evaluate the practice.

### ***Conclusion***

---

We reviewed the CDF investigation of 28 allegations relating to a variety of issues, including potential theft and misuse of FEPP aircraft and aircraft parts. For 25 allegations, we found the CDF either took defendable action, had policies in place, or did not need to take additional action. For the 3 remaining allegations, the CDF determined that its employees did not comply with state or federal regulations and concluded no further action was warranted because the State benefited from the activities. However, the CDF is not relieved of state or federal regulations even though the State may benefit.

### ***Recommendation***

---

The CDF should improve its compliance with federal and state requirements.

Blank page inserted for reproduction purposes only.

---

# **Chapter 2**

## ***The California Department of Forestry and Fire Protection Is Not Adequately Controlling Property Received From the Federal Excess Personal Property Program***

### **Chapter Summary**

**A**s a result of the allegations made of potential theft and misuse of state aircraft and aircraft parts borrowed by the California Department of Forestry and Fire Protection (CDF) through the Federal Excess Personal Property (FEPP) program, and addressed in Chapter 1, we reviewed the laws, rules, and regulations relevant to FEPP. We also reviewed the internal controls over the acquisition, disposal, loan, security, and physical inventory count of FEPP to evaluate if current controls adequately protect FEPP. Although the CDF has improved its handling of FEPP property, we believe, based on our review, that the CDF could do more to adequately control FEPP it borrows. We identified several weaknesses in the CDF's system of controls over FEPP and found that it is not following all the requirements established to participate in the FEPP program. Specifically, the CDF does not count and reconcile its FEPP inventory, does not accurately record items in its inventory records, does not appropriately tag FEPP, and does not adequately safeguard FEPP from unauthorized use or theft. As a result, items lost, stolen, or misplaced may go undetected. By not following the federal regulations for property management of FEPP, the result may be the suspension of the state FEPP program. Without the program, the CDF would have to purchase aircraft and related parts and equipment at a significant increase in cost to meet its needs in providing fire protection services.

### **Property Is Not Periodically Inventoried**

The CDF is not counting its FEPP and reconciling its records with the U.S. Forest Service records at least once every two years as required by the U.S. Forest Service, Property

***The last inventory was more than three years ago and a complete count was not performed.***

Acquisition Assistance Handbook. The Aviation Management Unit certified on June 18, 1992, that it made a complete physical inventory of FEPP items and reconciled them to the federal records. However, the program support manager informed us that a complete physical inventory count was not performed. Instead, in February 1993, the unit reviewed a sample of records and property because of limited staff and resources. The CDF then issued a report stating it made a limited count of 100 parts items and all tool items. Furthermore, according to the FEPP property manager, in spring 1994, the U.S. Forest Service and the CDF counted the Aviation Management Unit's aircraft and reconciled the unit's and the U.S. Forest Service's inventory. Neither the U.S. Forest Service nor the CDF could provide documents supporting this partial count. Additionally, according to the program support manager, the U.S. Forest Service periodically conducts a limited review of the FEPP inventory by requesting that the CDF verify ten items. If the CDF does not complete physical counts of FEPP, lost, stolen, or missing FEPP may not be detected.

### **Items Are Not Accurately Recorded in the Records**

***The CDF does not always adjust the equipment records when locations change or FEPP items are disposed of.***

The U.S. Forest Service's Property Acquisition Assistance Handbook requires that equipment records include equipment locations and be adjusted when FEPP items are disposed of. In addition, the handbook requires the assigned National Finance Center (NFC) number be included in the records and that certain property be marked with the NFC number. However, the CDF does not always adjust the equipment records when locations change and when FEPP items are disposed of. For example, we were not able to trace two of five items (radio transmitters) from the inventory listing to their physical locations. These two items were part of an inventory moved to Mather Air Force Base from another storage facility as part of the consolidation of the Aviation Management Unit operations. According to the program support manager, the Aviation Management Unit did not verify and update all equipment records when it placed the items in storage at Mather. Additionally, in testing three disposals, we found that one item, a gyroscope, also identified as part of this inventory, was not deleted from the equipment records when it was disposed of. The CDF will not know if FEPP is missing, misplaced, or disposed of if items are not accurately recorded in the records.

Moreover, not all equipment is marked with NFC numbers as required. Specifically, during our testing of controls over FEPP items, we found that one of ten items, a battery cart, was not marked with the NFC number and that another battery cart was marked with the wrong NFC number. We also found that an engine, which was properly listed in the records, was not identified as either state or federal property. Property identified as belonging to either the state or federal government may not be disposed of to the appropriate owner. Further, physical inventory counts and reconciliations to the records cannot be completed if property is not accurately marked.

---

### ***FEPP Is Not Adequately Safeguarded***

---

*Lax security, consisting of unoccupied, unlocked storage areas, allow access by unauthorized individuals.*

Further, the CDF is not adequately safeguarding FEPP from unauthorized access and use. For example, security over CDF equipment and parts at Mather Air Force Base is lax at times during work hours. Security measures consisted of locked doors in some areas and limited access to other storage areas. We found that doors to the CDF's storage areas and contractor parts rooms were not always locked during work hours and that at times each of these areas was left unoccupied, allowing access by unauthorized individuals.

We also noted in our review of the internal controls over property that there is inadequate separation of duties over property inventory and property records. For example, according to the Aviation Management Unit's FEPP coordinator, a physical count of 100 items was jointly performed by Aviation Management's program support manager and herself and that she also reconciles CDF's FEPP records to the federal records, prepares all acquisition and disposal documents, and records disposals in the records. Good internal control requires that the duties of counting physical inventory be separated from the duties of maintaining the property records.

The CDF Procedural Handbook for Material Management assigns responsibility for maintaining and reviewing statewide accountable FEPP records to the Business Services Division. According to the FEPP property manager, she does not review the Aviation Management Unit's FEPP aircraft and aircraft parts inventories and reconciliations. As a result, Business Services cannot ensure that complete physical inventories of aircraft and aircraft parts are performed.

Additionally, there is no evidence the Business Services Division is annually reviewing cooperative agreements related to FEPP with contract counties or that the ranger units are reviewing the agreements with the local fire districts. The U.S. Forest Service's Property Acquisition Assistance Handbook requires that a cooperative agreement or an agreement amendment covering acquisition, use, accountability, and disposal of FEPP be executed when FEPP is loaned to a local fire district or to contract counties. The agreements state that the period of the agreement is for one year, that the FEPP officer and the administrative officer will review the agreements annually, and that the agreements will be automatically extended if no changes or violations have occurred. The FEPP property manager stated that she initiates a new agreement when notified of a fire chief change, but is not formally reviewing the agreements with the contract counties. Also, two ranger unit administrative officers we spoke with informed us that they are not annually reviewing agreements with local fire districts. The CDF cannot ensure appropriate use of FEPP if agreements are not reviewed annually for violations.

Further, in response to an allegation where the CDF received credit for replaced aircraft radios, the CDF recommended evaluating “whether (1) the practice can be done appropriately under the procurement/disposal practices of the State of California, and (2) what safeguards were in place to assure that CDF received appropriate value for equipment disposed of in such a manner.” However, the CDF was unable to provide us with any evidence that it had evaluated this issue. Good internal control requires prompt follow up of recommendations to correct weaknesses in current practices.

---

*The CDF did not adequately assess Statements of Economic Interest for potential conflict-of-interest situations.*

---

Finally, the Financial Integrity and State Manager's Accountability Act states that management must be involved in assessing and strengthening systems of administrative control to minimize abuse and ensure that state assets are adequately safeguarded. We found that, in a situation where the CDF management had knowledge of a CDF employee's business relationship with prior CDF contractors, it did not adequately assess statements submitted by the CDF employee for potential conflict of interest. As discussed in Chapter 1, a CDF employee acquired land with other parties who were prior contractors with the CDF. The CDF employee disclosed the joint land ownership on his 1994-95 Statement of Economic Interest. However, according to the CDF employee's current supervisor, the acting chief of the Aviation Management Unit, he was unaware that this

employee had a continuing business relationship with two parties who were prior contractors with the CDF. If the CDF does not monitor situations in which there is a known history of employee business relationships with CDF contractors, CDF employees may be in a position to influence improperly the awarding of contracts.

### ***Improvements in the Management of State and Federal Property***

---

Although we found the CDF is not adequately counting and safeguarding its FEPP, it did improve the management of state and federal property from the time of the first allegation in 1982. Specifically, the aviation program is now centralized at Mather Air Force Base, allowing the CDF to directly oversee more of the program's operations. Also, maintenance contractors can now perform their work at CDF aviation unit facilities, allowing more CDF oversight. Moreover, the CDF implemented a new computerized aircraft maintenance and inventory program for increased oversight. Finally, a program support manager was added to the aviation staff to oversee property management.

### ***Conclusion***

---

The CDF does not perform complete physical inventories of FEPP every two years, accurately record FEPP in its inventory records, or appropriately tag and adequately safeguard FEPP as required. As a result, items lost, stolen, or misplaced may go undetected. Further, if the CDF does not follow federal regulations for property management of FEPP, the result may be the suspension of the state FEPP program. Without the program, the CDF would have to purchase aircraft and related parts and equipment at a significant increase in cost to meet its needs in providing fire protection services.

### ***Recommendations***

---

The CDF should ensure that it follows the federal requirement to perform a physical inventory of accountable FEPP and reconcile its records with the U.S. Forest Service records at least once every two years. Also, the CDF should ensure that equipment records are accurate and that all FEPP is properly marked and

adequately protected. Additionally, the CDF should review cooperative agreements with contract counties and ranger units annually to ensure they comply with agreement requirements before extending the agreements. Further, the CDF should promptly follow through on its own recommendations to correct questionable procedures. And finally, in situations in which the CDF has knowledge of a potential conflict of interest in the awarding of contracts, the CDF should adequately assess employees' Statements of Economic Interest to determine if CDF employees can improperly influence the awarding of contracts.

We conducted this review under the authority vested in the state auditor in Section 8543 et seq., of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope of this report.

Respectfully submitted,

KURT R. SJOBERG  
State Auditor

Date:

Staff: Philip Jelicich, CPA, Audit Principal  
Jeffrey Winston, CPA  
Jacqueline Conway